

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
AUDIT AND COMPLIANCE BRANCH**

**RESOLUTION W-4381
March 13, 2003**

R E S O L U T I O N

RESOLUTION W-4381. MESA CREST WATER COMPANY (MCWC). REQUEST FOR AUTHORITY TO BORROW A TOTAL OF \$250,000 AND TO ENCUMBER ITS ASSETS IN CONNECTION WITH THE LOAN.

By Advice Letter No. 51 filed on February 7, 2003.

SUMMARY

This Resolution grants MCWC the authority requested in Advice Letter (AL) No. 51.

MCWC requests authority pursuant to §§ 816 through 830 of the Public Utilities (PU) Code to obtain financing from the Community Development Commission of the County of Los Angeles (CDC) and to issue mortgage notes in an amount not exceeding \$250,000.

The proceeds of the loan are to be used for the re-coating and strengthening of three of MCWC's five existing steel water tanks.

Notice of AL No. 51 was made by publication in the Commission's Daily Calendar of February 10, 2003. No protests have been received.

BACKGROUND

MCWC, a Class C water utility, is subject to the jurisdiction of this Commission. MCWC provides water service to 709 metered customers in the unincorporated area comprising approximately 600 acres, known as

Mesa Crest located adjacent to and northerly of the community of La Canada, Los Angeles, California.

MCWC applied for and received a commitment letter dated December 17, 2002 from CDC to borrow \$250,000 at 4% interest for a term of fifteen years with a monthly amortization of principal and interest of \$1,849.22 (\$22,190.63 yearly). The purpose of the loan is to provide the necessary funds for recoating the inside of three steel water tanks. These tanks were last recoated in 1981. The financing for the 1981 project was secured through the Safe Drinking Water Bond Act (SDWBA) and the Department of Water Resources. According to the filing, MCWC retired the SDWBA loan ahead of schedule.

Pursuant to its Year 2001 Annual Report, MCWC reported that it generated total operating revenues of \$826,439 and net loss of \$16,610. The company's 2001 balance sheet is summarized below:

Assets

Net Utility Plant	\$ 453,219
Current and Accrued Assets	287,428
Deferred Charges	<u>0</u>
Total Assets	<u>\$740,647</u>

Liabilities & Equity

Capital and Retained Earnings	\$ 514,503
Long-term Debt	533
Current and Accrued Liabilities	100,716
Deferred Credits	46,458
Net Contributions in Aid of Construction	<u>78,437</u>
Total Liabilities and Other Credits	<u>\$ 740,647</u>

DISCUSSION

During the spring of 2000, MCWC engaged the services of Dive Corporation to inspect the inside of all of their water tanks. Underwater photography was used to document the current condition of coating within the tanks. Based on the photographs as well as on site inspections performed by coating contractors and tank manufacturers, the estimated costs for the re-coating and strengthening of three steel water tanks is as follows:

One .25 million gallon tank	\$ 50,000
Two .50 million gallon tanks	<u>200,000</u>
Total	<u>\$250,000</u>

The above estimates provide for the maximum amount of structural decay that may be located. When all three water tanks have been coated, any excess loan funds will be used to install cathodic protection within the tanks to increase the longevity of the new coating.

The proposed project consists of:

1. Replacing any support structures within the water tanks deemed unsuitable for recoating.
2. Sandblasting existing coating of the inside floors, walls and ceilings, and preparing said surfaces for the application of a new AWWA certified epoxy coating.
3. At the end of the first year of service, each water tank will be drained and re-inspected to certify the integrity of the new epoxy application. The coating contractor guarantees repairs and rectifications per contracted specifications.

When the project is completed, MCWC plans to seek recovery of the project costs through a request for rate base increase.

Capital Ratios

MCWC's capital ratios as of December 31, 2001 are shown below as recorded and as adjusted to give pro forma effect to the proposed \$250,000 loan:

	<u>Recorded</u>		<u>Proforma</u>	
Debt:				
Long-term Debt	\$	0 0.00%	\$ 250,000	37.59%
Short-term Debt		<u>0 0.00%</u>	<u>0</u>	<u>0.00%</u>
Subtotal	\$	0 0.00%	\$ 250,000	37.59%
Equity:				
Preferred Stock	\$	60,000 14.46%	\$ 60,000	9.02%
Common Stock		<u>355,000 85.54%</u>	<u>355,000</u>	<u>53.39%</u>
Subtotal	\$	415,000 100.00%	\$ 415,000	62.41%
Total Capitalization	\$	<u>415,000 100.00%</u>	<u>\$ 665,000</u>	<u>100.00%</u>

The Commission does not by this resolution determine that the construction budget and the capital structure presented herein are necessary or reasonable for ratemaking purposes. These issues normally are tested in Commission proceedings related to cost of capital assessment or rate increases.

We have reviewed MCWC's request for financing authority and the proposed use of proceeds and have determined that it is for proper purposes and is for the public good. As a public utility, MCWC has the responsibility to maintain its quality of service and to provide necessary improvement of its present water system.

The Commission, therefore, will authorize MCWC to borrow the total principal sum of \$250,000; to issue a long-term promissory note in connection with said borrowing on terms and conditions contemplated herein; and to encumber its assets in connection with the loan.

FINDINGS

1. On February 7, 2003, MCWC filed AL No. 51 seeking authority to borrow \$250,000 to finance the re-coating and strengthening of three existing steel water tanks. In addition, MCWC requests authorization to encumber its assets in connection with the loan.
2. The proposed water system improvements are needed to produce a healthful, reliable water supply.
3. The proposed borrowing is for proper purposes and the money, property, or labor to be procured or paid for by the loan authorized by this resolution is reasonably required for the purposes specified, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.
4. MCWC plans to seek recovery of the project costs through a request for rate base increase.
5. This resolution does not determine that MCWC's construction budget and capital structure are reasonable for ratemaking purposes.
6. MCWC should pay the fee determined in accordance with PU Code § 1904(b).
7. Notice of the filing of Advice Letter No. 51 appeared on the Commission's Daily Calendar of February 10, 2003. There is no known opposition to this filing, and the authority requested should be granted.

THEREFORE, IT IS ORDERED THAT:

1. On or after the effective date of this Resolution, Mesa Crest Water Company is authorized to borrow a total of \$250,000 from the Community Development Commission of the County of Los Angeles, the proceeds of which are to be used for the recoating and strengthening of three steel water tanks.

2. Mesa Crest Water Company may execute and deliver a loan contract or related documents in connection with the loan.
3. Mesa Crest Water Company may encumber its assets in connection with the loan granted in this Resolution.
4. Mesa Crest Water Company shall file with the Water Division a copy of the loan agreement and mortgage note within 15 days after execution.
5. Mesa Crest Water Company shall notify the Water Division in writing of the completion date of the project.
6. Mesa Crest Water Company shall upon completion of the project provide the Water Division a summary detailing the amounts of loan receipts and disbursements related to this order.
7. The authority granted by this order shall become effective when Mesa Crest Water Company pays \$500 as required by Public Utilities Code § 1904(b).

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on March 13, 2003; the following Commissioners voting favorably thereon:

WILLIAM AHERN
Executive Director

MICHAEL R. PEEVEY
President

CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY

Resolution W-4381
Mesa Crest Water Co./AL 51 ICRJ/RHG

March 13, 2003

Commissioners